

## Message Text

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ACTION EUR-10

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S E C R E T USNATO 5433

LIMDIS

E.O. 11652: XGDS, CAT. 2

TAGS: ECON, EX, NATO

SUBJ: NAC ITEM: SOVIET DEFENSE SPENDING

REF: USNATO 5204

1. MISSION UNDERSTANDS THAT ECONOMIC COMMITTEE REPORT ON SOVIET DEFENSE SPENDING, APPROVED AT OCTOBER 25-26 MEETING OF EXPERTS FROM CAPITALS (REFTEL) WILL GO ON NAC AGENDA FOR NOVEMBER 21 WITH COUNCIL INVITED TO TAKE NOTE OF THE REPORT. U.S. EXPERT AT OCTOBER 25-26 MEETING (DONALD BURTON, OFFICE OF STRATEGIC RESEARCH) WAS A PRINCIPAL DRAFTER OF THE REPORT. MISSION TRANSMITS TEXT OF REPORT, C-M(73)101.

2. ACTION REQUESTED: ANY COMMENTS WASHINGTON MAY WISH TO PROVIDE ON THE REPORT.

3. BEGIN TEXT OF C-M(73)101:

SOVIET DEFENCE SPENDING

1. SOVIET OUTLAYS FOR DEFENCE ARE ESTIMATED TO HAVE AMOUNTED TO SOME 25 TO 30 BILLION ROUBLES IN 1972. ALTHOUGH THERE ARE SOME DIFFERENCES IN THE DISTRIBUTION OF THEIR DEFENCE EFFORT,  
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THE SOVIET DEFENCE SPENDING SEEMS, IN QUANTITATIVE TERMS, TO BE ROUGHLY OF THE SAME MAGNITUDE AS THAT OF THE UNITED STATES.

2. OF MORE INTEREST THAN THE LEVEL OF SPENDING IN ANY GIVEN

YEAR, HOWEVER, IS THE TREND OF THE SOVIET DEFENCE EFFORT OVER TIME. SINCE 1960, SOVIET SPENDING FOR DEFENCE IN REAL TERMS HAS BEEN INCREASING AT AN AVERAGE RATE OF ABOUT 3 PERCENT PER YEAR. THE PRINCIPAL CAUSES HAVE BEEN THE RAPID GROWTH IN OUTLAYS FOR SPACE AND MILITARY R & D AND A STEADY RISE IN THE COST OF OPERATING THE FORCES.

3. THERE HAVE BEEN SUBSTANTIAL DEVIATIONS FROM THE LONG-TERM TREND IN INDIVIDUAL YEARS. THESE DEVIATIONS HAVE FOLLOWED A CYCLICAL PATTERN. IN THE EARLY SIXTIES AND AGAIN IN THE SECOND HALF OF THE DECADE ANNUAL GROWTH RATES EXCEEDED THE 3 PERCENT LEVEL. IN 1963-1964, GROWTH RATES WERE BELOW THE AVERAGE, AND FOR THE PAST THREE YEARS DEFENCE SPENDING HAS REMAINED ALMOST LEVEL.

4. THE PATTERN OF SOVIET DEFENCE SPENDING REFLECTS THE WIDE CYCLICAL VARIATION IN ANNUAL OUTLAYS FOR THE PROCUREMENT OF STRATEGIC SYSTEMS. THESE VARIATIONS, IN TURN, REFLECT THE TIMING OF THE LARGE EXPENDITURES ATTACHED TO THESE PROGRAMMES WHICH TAKE SEVERAL YEARS TO IMPLEMENT. MILITARY R & D PROGRAMMES HAVE ALSO FOLLOWED A CYCLICAL PATTERN WITH EXPENDITURE PEAKS PRECEDING LARGE SCALE PROCUREMENT SPENDING FOR STRATEGIC SYSTEMS.

5. MEASURED IN TERMS OF ITS SHARE OF GROSS NATIONAL PRODUCT, DEFENCE SPENDING IS ESTIMATED NOW TO AMOUNT TO ABOUT 8 TO 10 PERCENT. HOWEVER, CAUTION SHOULD BE EXERCISED WHEN CONSIDERING SUCH A PERCENTAGE IN AS MUCH AS IT IS NOT COMPARABLE WITH SIMILAR PERCENTAGES CALCULATED FOR WESTERN COUNTRIES.

SINCE SOVIET GNP HAS BEEN GROWING FASTER THAN DEFENCE SPENDING, THIS SHARE HAS BEEN DECLINING GRADUALLY OVER THE LAST DECADE. INDEED IN THE SOVIET UNION THE SHARE OF GNP UNDERSTATES THE TRUE BURDEN OF DEFENSE BECAUSE THE DEFENSE EFFORT DRAINS OFF A DISPROPORTIONATE SHARE OF THE AVAILABLE TECHNOLOGICAL RESOURCES SORELY NEEDED FOR MODERNIZING THE SOVIET ECONOMY. NONETHELESS, ECONOMIC CONSTRAINTS ALONE ARE NOT LIKELY TO DETER THE SOVIETS FROM IMPLEMENTING ANY MILITARY PROGRAMS THAT THEY DEEM NECESSARY.

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#### OUTLOOK

6. A COMBINATION OF FACTORS INDICATES THAT THE RECENT STAGNATION IN THE LEVEL OF SOVIET DEFENSE SPENDING WILL BE REVERSED AND THAT THE LONG-TERM UPWARD TREND WILL CONTINUE INTO THE LATE 1970S. PRESENT MILITARY R & D SPENDING IS AT AN ALL-TIME HIGH, REFLECTING THE LARGE NUMBER OF STRATEGIC SYSTEMS UNDERGOING DEVELOPMENT. MISSILE TEST ACTIVITIES, DURING THE PAST THREE YEARS, HAVE BEEN HIGHER THAN AT ANY TIME IN THE PAST. THIS PORTENDS A NEW SURGE IN PROCUREMENT OUTLAYS -- AND TOTAL DEFENSE SPENDING -- IN THE 1974-1976 PERIOD AS THE SOVIETS REPLACE PORTIONS OF THEIR ICBM FORCE WITH NEW SYSTEMS AND ADD TO OTHER STRATEGIC FORCES WITHIN THE PROVISIONS OF THE PRESENT ARMS

LIMITATION AGREEMENTS. SUBSTANTIAL INCREASES ARE ALSO EXPECTED  
IN SPENDING FOR NAVAL, AIR, AND GROUND FORCES. IN SHORT, IT  
LOOKS AS IF THE USSR PATTERN OF ANNUAL DEFENSE SPENDING HAS  
NOT REFLECTED CHANGES IN ATTITUDES TOWARDS THE WEST. THEREFORE  
IT SEEMS THAT THE SOVIET LEADERSHIP DOES NOT APPEAR TO SEE ANY  
CONTRADICTION BETWEEN A CONTINUED HIGH LEVEL OF DEFENCE SPENDING  
AND IMPROVEMENT OF EAST-WEST RELATIONS. END TEXT. RUMSFELD

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